

REPORT OF INDEPENDENT AUDITORS AND ANNUAL FINANCIAL STATEMENTS

Memorandum from the Deputy Inspector General for Audit Services	74
Report of Independent Auditors	76
Annual Financial Statements	78



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Date April 12, 2002

From Deputy Inspector General
for Audit Services

Subject Report on the Financial Statement Audit of the Centers for Disease Control and
Prevention and Agency for Toxic Substances and Disease Registry for Fiscal Year 2001
(A-17-01-00010)

To Jeffrey P. Koplan, M.D., M.P.H.
Director, Centers for Disease Control and Prevention
and Agency for Toxic Substances and Disease Registry

The attached final report presents the results of the audit of the Fiscal Year (FY) 2001 financial statements of the Centers for Disease Control and Prevention (CDC) and Agency for Toxic Substances and Disease Registry (ATSDR). A certified public accounting firm, Ernst and Young, LLP (EY), undertook the audit in support of the Departmentwide financial statement audit by the Office of Inspector General (OIG) and in accordance with the Government Management Reform Act of 1994. The OIG exercised technical oversight and quality control over the audit.

The audit objectives were to determine whether: (1) the CDC/ATSDR consolidated balance sheets as of September 30, 2001 and 2000, and the related consolidated statements of net cost for the FYs then ended, as well as the consolidated statements of changes in net position and financing, and the combined statement of budgetary resources for the FY ended September 30, 2001, were fairly presented in all material respects; (2) CDC/ATSDR internal controls provided reasonable assurance that transactions were properly recorded and accounted for to permit the preparation of reliable financial statements; and (3) CDC/ATSDR complied with laws and regulations that could have a direct and material effect on the financial statements.

In the auditor's opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CDC/ATSDR as of September 30, 2001 and 2000, and its net costs for the years then ended, as well as the changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for FY 2001 in conformity with accounting principles generally accepted in the United States.

The CDC/ATSDR is commended for sustaining their unqualified opinion. Furthermore, the report on internal controls noted no weakness considered to be material

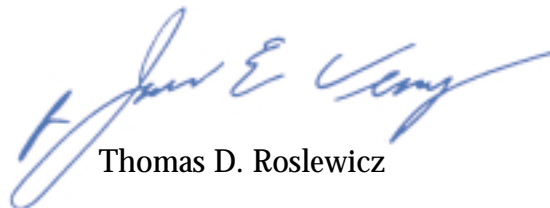
Page 2 - Jeffrey P. Koplan, M.D., M.P.H.

under standards established by the American Institute of Certified Public Accountants. The report did note, however, certain matters relating to the internal controls over analysis and development of financial statements, Payment Management System grant accounting, grants oversight, and reimbursable agreements that are considered to be reportable conditions.

The firm noted no instances, exclusive of the Federal Financial Management Improvement Act (FFMIA) of 1996, of noncompliance with laws and regulations which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in Office of Management and Budget Bulletin 01-02. Related to FFMIA, the firm noted no instances where CDC/ATSDR's financial management systems did not substantially comply with Federal financial management systems requirements.

The firm has incorporated comments to the report where appropriate. Officials in your office have concurred with the recommendations and have or are in the process of taking corrective action. We would like to thank you and your staff for the cooperation and assistance in working with us and the firm on the FY 2001 financial statement audit.

We would appreciate your views and the status of any further action taken or contemplated on EY's recommendations within 60 days. Should you wish to discuss this report, please call me or have your staff contact Joseph E. Vengrin, Assistant Inspector General for Audit Operations and Financial Statement Activities, at (202) 619-1157. Please refer to the Common Identification Number A-17-01-00010 in all correspondence relating to this report.



Thomas D. Roslewicz



■ Ernst & Young LLP
1225 Connecticut Avenue, N.W.
Washington, D.C. 20036

■ Phone: (202) 327-6000
www.ey.com

REPORT OF INDEPENDENT AUDITORS

To the Inspector General of the
Department of Health and Human Services, and
the Director of the Centers for Disease Control and Prevention and
Agency for Toxic Substance and Disease Registry

We have audited the consolidating balance sheets of the Centers for Disease Control and Prevention (CDC) and Agency for Toxic Substance and Disease Registry (ATSDR), operating divisions of the Department of Health and Human Services as of September 30, 2001 and 2000, and the related consolidating statements of net costs for the fiscal years then ended, and the consolidating statement of changes in net position, consolidated statement of financing, and the combined statement of budgetary resources for the fiscal year ended September 30, 2001. These financial statements are the responsibility of CDC/ATSDR's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits for the years ended September 30, 2001 and 2000 in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. These standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CDC/ATSDR as of September 30, 2001 and 2000, and its net costs for the years then ended and the changes in net position, budgetary resources, and its reconciliation of net costs to budgetary obligations for the fiscal year then ended September 30, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of expressing an opinion on the financial statements referred to in the first paragraph. The information in the Overview of the CDC/ATSDR and the Supplemental Information are not a required part of the CDC/ATSDR financial statements, but are considered supplementary information required



■ Ernst & Young LLP

by OMB Bulletin 97-01, as amended, and 01-09, as applicable, *Form and Content of Agency Financial Statements*. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

However, we were unable to assess control risk relevant to the CDC/ATSDR's governmental transactions and balances, as required by OMB Bulletin 01-02, because reconciliations were unable to be performed with certain Federal trading partners as required by January 7, 2000 technical amendments to OMB Bulletin 97-01.

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 11, 2002, on our consideration of the CDC/ATSDR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in blue ink that reads 'Ernst & Young LLP'.

January 11, 2002

Centers for Disease Control and Prevention/Agency for Toxic Substances and Disease Registry

Consolidating Balance Sheet

As of September 30, 2001 and 2000 • (dollars in thousands)

	CDC	ATSDR				
	Health	Natural Resources and Environment	Combined Totals	Intra-OPDIV Eliminations	FY 2001 Consolidated Totals	FY 2000 Consolidated Totals
Assets						
<i>Intragovernmental</i>						
Fund balance						
with Treasury (Note 2)	\$3,591,935	\$61,313	\$3,653,248	\$ —	\$3,653,248	\$2,725,290
Accounts receivable, net (Note 3)	36,393	4,719	41,112	1,161	39,951	99,046
Other assets (Note 4)	4,849	—	4,849	—	4,849	7,139
Total intragovernmental assets	3,633,177	66,032	3,699,209	1,161	3,698,048	2,831,475
Accounts receivable, net (Note 3)	9,630	217	9,847	—	9,847	13,474
Cash and other monetary assets (Note 1)	117	—	117	—	117	117
Inventory and related property, net (Note 6)	26,587	—	26,587	—	26,587	26,571
General property, plant, and equipment, net (Note 7)	222,907	924	223,831	—	223,831	176,924
Other assets (Note 4)	2,043	—	2,043	—	2,043	2,103
Total assets	3,894,461	67,173	3,961,634	1,161	3,960,473	3,050,664
Liabilities						
<i>Intragovernmental</i>						
Accounts payable (Note 8)	93	1,108	1,201	1,161	40	14,152
Accrued payroll and benefits (Note 10)	7,154	213	7,367	—	7,367	3,491
Other liabilities (Note 11)	59,393	456	59,849	—	59,849	56,145
Total intragovernmental liabilities	66,640	1,777	68,417	1,161	67,256	73,788
Accounts payable (Note 8)	153,867	2,415	156,282	—	156,282	120,997
Accrued grant liability (Note 5)	146,404	2,747	149,151	—	149,151	128,470
Federal employees' and veterans' benefits (Note 12)	17,654	1,098	18,752	—	18,752	16,372
Accrued payroll and benefits (Note 10)	77,098	4,244	81,342	—	81,342	73,241
Other liabilities (Note 11)	34,503	985	35,488	—	35,488	2,651
Total liabilities	496,166	13,266	509,432	1,161	508,271	415,519
Net position (Note 13)						
Unexpended appropriations	3,226,958	56,346	3,283,304	—	3,283,304	2,505,243
Cumulative results of operations	171,337	(2,439)	168,898	—	168,898	129,902
Total net position	3,398,295	53,907	3,452,202	—	3,452,202	2,635,145
Total liabilities and net position	\$3,894,461	\$67,173	\$3,961,634	\$1,161	\$3,960,473	\$3,050,664

The accompanying notes are an integral part of these financial statements.

Centers for Disease Control and Prevention/Agency for Toxic Substances and Disease Registry

Consolidating Statement of Net Cost

For the years ended September 30, 2001 and 2000 • (dollars in thousands)

	<u>CDC</u>	<u>ATSDR</u>		
	Health	Natural Resources and Environment	FY 2001 Consolidated Totals	FY 2000 Consolidated Totals
Net program activity costs				
<i>GPRA programs</i>				
Environmental and occupational health	\$ 406,413	\$75,238	\$ 481,651	\$ 396,627
Preventive health and health services block grant	87,397	—	87,397	246,224
Chronic disease prevention	622,781	—	622,781	401,453
Epidemic services	114,656	—	114,656	100,063
Health statistics	62,460	—	62,460	37,497
Immunization	1,254,758	—	1,254,758	385,172
Infectious diseases	1,280,868	—	1,280,868	1,090,729
Injury prevention and control	105,681	—	105,681	76,258
Prevention research	15,535	—	15,535	4,957
Net cost of operations	\$3,950,549	\$75,238	\$4,025,787	\$2,738,980

The accompanying notes are an integral part of these financial statements.

Centers for Disease Control and Prevention/Agency for Toxic Substances and Disease Registry

Consolidating Statement of Changes in Net Position

For the year ended September 30, 2001 • (dollars in thousands)

	<u>CDC</u>	<u>ATSDR</u>	
	<u>Health</u>	<u>Natural Resources and Environment</u>	<u>Consolidated Total</u>
Net cost of operations	\$(3,950,549)	\$(75,238)	\$(4,025,787)
<i>Financial sources</i> <i>(other than exchange revenues)</i>			
Appropriations used	3,936,989	70,818	4,007,807
Donations—nonexchange revenue	747	10	757
Nonbudgetary transfers-in/out without reimbursement	(151)	38	(113)
Imputed financing from costs absorbed by others	54,472	3,853	58,325
Other nonbudgetary financing sources	(1,893)	(101)	(1,994)
Net results of operations	39,615	(620)	38,995
Net change in cumulative results of operations	39,615	(620)	38,995
Increase (decrease) in unexpended appropriations	774,046	4,016	778,062
Change in net position	813,661	3,396	817,057
Net position, beginning of period	2,584,634	50,511	2,635,145
Net position—end of period	\$ 3,398,295	\$ 53,907	\$ 3,452,202

The accompanying notes are an integral part of these financial statements.

Centers for Disease Control and Prevention/Agency for Toxic Substances and Disease Registry

Combined Statement of Budgetary Resources

For the year ended September 30, 2001 • (dollars in thousands)

	CDC	ATSDR	Combined Total
<i>Budgetary resources</i>			
Budgetary authority	\$4,740,023	\$74,835	\$4,814,858
Unobligated balances, beginning of period	40,187	—	40,187
Spending authority from offsetting collections	192,223	18,650	210,873
Adjustments	4,400	—	4,400
Total budgetary resources	4,976,833	93,485	5,070,318
<i>Status of budgetary resources</i>			
Obligations incurred	4,914,842	93,458	5,008,300
Unobligated balances, available	50,355	27	50,382
Unobligated balances, not available	11,636	—	11,636
Total, status of budgetary resources	4,976,833	93,485	5,070,318
<i>Outlays</i>			
Obligations incurred	4,914,842	93,458	5,008,300
Less: spending authority from offsetting collections and adjustments	(227,698)	(18,650)	(246,348)
Subtotal	4,687,144	74,808	4,761,952
Obligated balance, net: beginning of period	2,675,432	—	2,675,432
Less: obligated balance, net: end of period	(3,540,694)	(30,468)	(3,571,162)
Total outlays	\$3,821,882	\$44,340	\$3,866,222

The accompanying notes are an integral part of these financial statements.

Centers for Disease Control and Prevention/Agency for Toxic Substances and Disease Registry

Consolidated Statement of Financing

For the year ended September 30, 2001 • (dollars in thousands)

	CDC	ATSDR	Combined Total
<i>Resources used to finance activities</i>			
Budgetary resources obligated			
Obligations incurred	\$4,914,842	\$93,458	\$5,008,300
Less: Spending authority from offsetting collections and recoveries	(227,698)	(18,650)	(246,348)
Obligations net of offsetting collections and recoveries	4,687,144	74,808	4,761,952
Net obligations	4,687,144	74,808	4,761,952
Other Resources			
Donations and forfeitures of property	747	10	757
Transfers-in/out without reimbursement	(151)	38	(113)
Imputed financing from costs absorbed by others	54,472	3,853	58,325
Other	(1,893)	(101)	(1,994)
Net other resources used to finance activities	53,175	3,800	56,975
Total resources used to finance activities	4,740,319	78,608	4,818,927
<i>Resources used to finance items not part of the net cost of operations</i>			
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	749,798	29,704	779,502
Budgetary offsetting collections and receipts that do not affect net cost of operations:			
Other	(347)	—	(347)
Resources that finance the acquisition of assets	59,281	211	59,492
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(151)	38	(113)
Total resources used to finance items not part of the net cost of operations	808,581	29,953	838,534
Total resources used to finance the net cost of operations	\$3,931,738	\$48,655	\$3,980,393

Centers for Disease Control and Prevention/Agency for Toxic Substances and Disease Registry

Consolidated Statement of Financing (continued)

For the year ended September 30, 2001 • (dollars in thousands)

	CDC	ATSDR	Combined Total
<i>Components of net cost of operations that will not require or generate resources in the current period</i>			
Components requiring or generating resources in future periods			
Increase in annual leave liability	\$ 4,548	\$ 425	\$ 4,973
Increase in exchange revenue receivable from the public	214	(7)	207
Other	2,243	136	2,379
Total components of net cost of operations that will require or generate resources in the future period	7,005	554	7,559
Components not requiring or generating resources			
Depreciation and amortization	9,913	205	10,118
Other	1,893	25,824	27,717
Total components of net cost of operations that will not require or generate resources	11,806	26,029	37,835
Total components of net cost of operations that will not require or generate resources in the current period	18,811	26,583	45,394
Net cost of operations	\$3,950,549	\$75,238	\$4,025,787

The accompanying notes are an integral part of these financial statements.

